

MINUTES
LEGISLATIVE FINANCE COMMITTEE
April 25, 26, 27, and 28, 2006

Representative Henry “Kiki” Saavedra, chairman, called the Audit/Computers and Capital Subcommittee meeting to order on Tuesday, April 25, 2006, at 1:30 pm.

The following LFC members were present on April 25:

Representative Henry “Kiki” Saavedra, chairman, Senator Phil Griego, vice chairman, Representatives Luciano “Lucky” Varela, Jeannette Wallace, Donald Whitaker, Senator Nancy Rodriguez for Ben Altamirano, and Senator Joseph Carraro.

Representative Luciano “Lucky” Varela, chairman, called the Legislative Finance Committee (LFC) meeting to order on Wednesday, April 26, 2006, at 8:30 a.m.

The following LFC members were present on April 26:

Representative Luciano “Lucky” Varela, chairman, Senator Nancy Rodriguez for Joseph Fidel, vice chairman, Representatives Nick Salazar, Rhonda King, Jeannette Wallace, Thomas C. Taylor for Sandra Townsend, Brian Moore, Donald Whitaker, and Henry “Kiki” Saavedra, and Senators Timothy Jennings, Leonard Rawson, Phil Griego, Joseph Carraro, Sue Wilson Beffort, and John Smith. Representatives Picraux, Larranaga, Bratton, and Arnold-Jones and Senator Mary Jane Garcia joined the committee as guests.

The following LFC members were present on April 27:

Representative Luciano “Lucky” Varela, chairman, Senator Nancy Rodriguez for Joseph Fidel, vice chairman, Representatives Nick Salazar, Rhonda King, Jeannette Wallace, Thomas C. Taylor for Sandra Townsend, Brian Moore, Edward Sandoval for Donald Whitaker, and Patricia Lundstrom for Henry “Kiki” Saavedra, and Senators Mary Kay Papen for Timothy Jennings, Phil Griego, Joseph Carraro, Sue Wilson Beffort, and John Smith.

The following LFC members were present on April 28:

Representative Luciano “Lucky” Varela, chairman, Senator Nancy Rodriguez for Joseph Fidel, vice chairman, Representatives Nick Salazar, Rhonda King, Jeannette Wallace, Thomas C. Taylor for Sandra Townsend, Brian Moore, Edward Sandoval for Donald Whitaker, and Patricia Lundstrom for Henry “Kiki” Saavedra, and Senators Mary Kay Papen for Timothy Jennings, Phil Griego, Joseph Carraro, Sue Wilson Beffort, and John Smith. Representatives Picraux and Larranaga joined the committee as guests.

Implementation of Coverage Initiatives and Provider Rate Increases and Medicaid Budget Update

Pamela Hyde, secretary of the Human Services Department (HSD), indicated the two goals of Insure New Mexico are to reduce number of uninsured in New Mexico – especially children -- and increase the number of small businesses offering employer-sponsored insurance (or at the very least, slow the reduction of such insurance) by developing or offering multiple options for individuals and small businesses.

Regarding the uninsured population, Secretary Hyde stated that in 2003 22.1 percent (414,000) of the population was uninsured. In 2004, 21 percent (399,000) of the population was uninsured. The figures for 2005 are due August 2006 and possibly will reflect reduced federal funding for Medicaid insurance during 2005. The smaller the business the less likely it is to provide insurance and the lower a person's income, the more likely he is to be uninsured.

Without children or a disability, adults are not eligible for Medicaid in New Mexico, a primary source of insurance for approximately 407,000 New Mexicans who are low-income children, seniors or disabled individuals

Secretary Hyde identified the following insurance options currently available or in development under the Insure New Mexico umbrella: State Coverage Insurance (SCI), Small Employers Insurance Program (SEIP), Health Insurance Alliance (HIA), New Mexico Medical Insurance Pool (NMMIP), Premium Assistance Program and Medicaid Initiatives.

Secretary Hyde said the programs involve state and federal government and private participation and include coverage for adults earning less than 200 percent of the federal poverty level. Commercial insurance carriers will target employers with 50 or fewer employees. And employees and individuals who have not voluntarily dropped insurance in the last six months will be eligible. Secretary Hyde said the benefits are comprehensive, similar to most commercial group package.

Secretary Hyde noted the success of SCI is challenged by the imbalance between University of New Mexico Hospital enrollees and enrollees from employer groups, the disproportionate enrollment of high-cost clients, the lack of enrollment among business groups, and possible federal challenges to covering adults without children.

Ms. Hyde said the Small Employer Insurance Program (SEIP) is a self-funded, state-administered pool for small employers (under 50 employees) administered by HSD for the General Services Department. The program has a benefit package similar to SCI so employers can use both. This program will also will use commercial insurance carriers. She is hoping to have SEIP out for offer by summer 2006

Secretary Hyde described the Health Insurance Alliance as an information clearinghouse and technical assistance program. The governor and Legislature reduced the rate structure in 2005 and legislation allowing HIA and SCI for the same employer passed in 2006 session and will be effective June 2006. In addition there is reduced cost product for small employers by using commercial insurance carriers and tax incentives to cover losses. The program covers over 5,055 in March 2006 compared with 3,686 in March 2005.

Secretary Hyde reported on the New Mexico Medical Insurance Pool administered by Blue Cross-Blue Shield of New Mexico that covers high-risk and uninsurable individuals. That program now can do group coverage. The program has tax incentives to cover losses and 2005 legislation allows increased tax credits for low-income individuals and additional groups.

The newest Insure New Mexico piece is the Premium Assistance Program that was made possible by 2006 session legislation. Although it is not yet fully developed, the program is working on benefit package, payment mechanism, model/approach, and targeted outreach. The funding would cover about 3,000 children, depending on the benefit plan and mechanism. This program is expected to begin in summer 2006, however demand this year will affect budget need for FY08.

Secretary Hyde indicated that Medicaid is a critical component of the overall effort to insure New Mexico

residents. It is critical for low-income individuals and children.

2007 Medicaid Initiatives:

1. Income disregards to increase Medicaid eligible kids 0-5 (\$3.7 million)
2. Increase eligibility for pregnant women from 185 percent to 235 percent federal poverty level (\$3.9 million)
3. Outreach to Medicaid-eligible children (\$4.6 million)
4. Outreach to Medicaid-eligible Navajos (\$1 million)
5. Recertification change to 12 months (\$4.5 million)
6. Medicaid eligibility for foster care youth through age 20 (currently through age 18)

Secretary Hyde revealed the FY07 Insure New Mexico action plan ingredients:

- Launch marketing campaign to help insure more New Mexicans with affordable health care – began April 24, 2006
- Collaborate with chambers of commerce, business associations and others around the state
- Increase employer group enrollment in SCI
- Start up SEIP, Premium Assistance, Navajo Nation project, Medicaid changes and outreach
- Review Insure New Mexico Council recommendations, propose additional executive and legislative action in 2007 session

Responding to Senator Smith, Ms. Hyde said the Income Support Division offices are the fastest source of information. Also, the programs are starting to work through insurance brokers that will widen the information network. HSD is putting a staff person in the HIA office to assist and facilitate inquiries.

Responding to Representative Larranaga, Ms. Hyde said private insurance pools are not the most financially efficient path for providing insurance. She said for the state the cheapest road includes a federal Medicaid match.

Representative Taylor inquired about the recent Massachusetts initiative to expand statewide health insurance. Secretary Hyde replied that the Massachusetts plan builds on Medicaid but that Massachusetts already covers adults to 135 percent of the federal poverty level while New Mexico adults cannot earn more than 85 percent. That first step would be expensive in New Mexico even with the Medicaid match. Massachusetts gave an agency the authority to set insurance rates and benefit packages in certain instances to facilitate the establishment of programs.

Senator Rawson requested from HSD the summary of benefits for each program along with the individual eligibility requirements. Senator Rawson also noted that almost 15 percent of the state employees do not have insurance and this needs examination before requiring expanded coverage in the private sector. Senator Rawson also expressed dismay that GSD took so long to include eligible groups such as Sierra Vista Hospital in his area.

Senator Griego inquired regarding information in outlying communities. Secretary Hyde replied Insure New Mexico will have an expanded advertising campaign that will include TV, radio, print media and insurance brokers. Senator Griego noted the rural churches are a great opportunity to get the word out.

Representative Moore said he worries about the affordability of such healthcare programs. Secretary Hyde agrees affordability is extremely important. Surveys help determine the cost level that persons are willing to pay. These issues make a universal plan attractive.

Secretary Hyde reported the FY05 general fund requirement for Medicaid is about \$605 million and \$706 million in FY06, an increase of 16.7 percent. Secretary Hyde reported the following for FY06.

	FY 2003	FY 2004	FY 2005 (Projection March 2006 Data)	Percentage Change FY04 to FY05	FY 2006 (Projection March 2006 Data)	Percentage Change FY05 to FY06
State GF Budget	\$382,434	\$407,668	\$605,240	48.5%	\$706,551	16.7%
Total Projected	\$2,008,983	\$2,304,200	\$2,424,870	5.2%	\$2,566,075	5.8%

Some of the challenges noted were that the computer system interface issue is better but still not resolved. Reconciliation with the managed-care organizations on capitation payments is not completed and the “clawback” invoice for first three months was just received. Some of the pending issues are with provider payments in the developmental disabilities waiver and pharmacy. Preliminary data on managed behavioral health care indicates the state \$166 million spent on direct services in FY06 compared with about \$147 million spent in FY05. The contractor is helping multiple agencies maximize available general fund dollars across agencies

Some of the positives that Secretary Hyde reported were that there was no supplemental or deficiencies since 2003, despite federal reductions and clean up of tens of millions of dollars of prior year expenses.

FY 07 initiatives for adults will include increasing the eligibility for pregnant women from 185 percent to 235 percent FPL at a cost of \$3.9 million to serve an additional 1,200 women served, implementing the self-directed waiver (to allow children and adults on four existing waivers and individuals with brain injuries to direct their own services, and assuring that \$1.3 million in tobacco settlement funds are spent on breast and cervical cancer services, and allowing hospice services for patients on other programs, increasing preventive dental office benefits for individuals with developmental disabilities to twice per year and adding a tele-health benefit, and changing case management and life skills for behavioral health into comprehensive community support service.

The FY07 Medicaid appropriation would include rate increases of general provider payments (\$5.2 million from the general fund), physician payments (\$9.45 million from the general fund), and dental services payments (\$950,000 from the general). The total general fund appropriation and federal matching payment would equal \$55.2 million. The rate increases pose complications, such as Medicaid pays by procedure code, not by provider, and some procedure codes can be used by multiple providers. The explicitness of budget language makes tracking to each requirement difficult. Some provider increases may increase utilization, thereby increasing expenditures beyond the actual rate of the provider increase. Along with changes in the process such as receiving input from stakeholders and the Medicaid Advisory Committee and analyzing various approaches and providing notices by June 1 for July 1 changes

Some additional Medicaid challenges for FY07 and 08 are the federal match staying relatively even because the Federal Deficit Reduction Act is likely to negatively impact HSD, the Children, Youth and Families Department, and the children and families served. The proof of citizenship requirement for those certifying or recertifying after July 1, 2006, also could pose a problem for citizens who do not have access to original or formal document of citizenship, for example tribal elders, babies not born in hospitals, and transient families.

Mark Weber, Legislative Finance Committee analyst, raised the issue of gubernatorial vetoes and how additional funds will be in the Medicaid program. The veto regarding \$5.3 million related to the nursing home surcharge repeal will result in additional funds in this amount for the program. Secretary Hyde agreed

to disagree. Also, Secretary Hyde noted the veto related to the UNMH SCI program protects New Mexico and SCI from federal scrutiny of unauthorized program direction.

Representative Varela implored the agency to establish an adequate base budget recommendation for FY08 before requesting additional Medicaid initiatives.

Human Services Department Quarterly Performance Report

Katie Falls, deputy secretary, HSD, reviewed the HSD third-quarter performance report. Ms. Falls reviewed each of the four division programs. Mark Weber noted even though some targets were met for New Mexico standards, the targets are far below national benchmarks. Likewise, measures in the Income Support Division need to better track outcomes.

Dannette Burch, deputy secretary, Department of Finance and Administration, (DFA) testified on the executive's performance and accountability contracts and compared them with the Accountability in Government Act (AGA) performance measures required by the Legislature. The contracts are essentially agreements between the agencies and the governor that spell out the goals and tasks the agency will work towards. It is a way for the governor to hold agencies accountable to his priorities for the state. One example is the "making schools work" contract that includes both higher and public education departments. They aligned the contract parameters with the budget requests.

Ms. Burch reported that the contracts have been a successful framework for making policy decisions and will continue to be a high priority.

There are seven contracts: "Making Schools Work," "A Healthy New Mexico," "Promoting and Growing New Mexico," "A Safer New Mexico," "Protecting and Promoting New Mexico's Environment," "Services for New Mexicans," and "Managing State Resources." Each contract defines significant policy goals, specific tasks, measures, and action steps for producing results.

The Department of Finance and Administration (DFA) is focused on the tasks. Ms. Burch indicated that in many cases the measures are similar to the performance measures required by AGA and in some cases are better. The last session, the priorities were education and health care.

Beginning in July, agencies will be looking at ways to modify the AGA performance measures to align with the contract priorities.

The contracts are used to frame policy decisions and focus dollars on the most important statewide priorities. At this point, Representative Whitaker asked how they develop statewide priorities and if they ask the communities what they need. Ms. Burch responded that they have no formal process but the governor's office and agencies receive input everyday from across New Mexico.

Ms. Burch indicated that not much has been done with the AGA measures for two years and that it was time to revisit them. She indicated that the reporting requirements for the contracts would be included in the quarterly reports for AGA. She also reported that by the first quarterly report for FY07, the agencies will propose

changes to the AGA measures to conform to the contracts. However, it may be difficult since the contracts are not comprehensive and designed for the governor's priorities and data problems continue to delay effective AGA reporting.

Ms. Burch singled out the Higher Education Department (HED) as an agency that has used the AGA measures to redirect policy decisions. In closing, Burch indicated that the executive's desire was to continue and improve upon positive relationships with the Legislature and clear communication. She wants to avoid duplication in reporting requirements so as not to overburden the agencies. She announced that Marlena Taylor at the DFA was the point person for the contracts.

David Abbey, director, LFC, reported that the Legislative Finance Committee agrees with the points of emphasis in DFA presentation on clarifying the priorities and reporting requirements. Some of the problems cited are duplication of work between DFA and Legislative Finance Committee. Quality suffers and there's a challenge to using the data for policymaking. He said the staff is suggesting a report card to simplify and clarify performance results. A pyramid is the appropriate way to show performance. The state of the state is at the top, followed by the GAA, then the additional budget items not included in the GAA and finally agency internal requirements.

One of the problems is with streamlining these reports.

The Departments of Health and Transportation (DOH and DOT) have both made great strides in their measures whereas CYFD has not changed theirs since the beginning. CYFD's measurement for childcare is inappropriate for the goals of the program – they are not meaningful to the public. There are no measures for the fee for service program with Medicaid. Corrections has used its measures as leading indicators for trouble. DOT uses their measures as publicity for their agency by putting the reports on the walls of the building.

Arley Williams, Legislative Finance Committee analyst, indicated that all of the key agencies have submitted their reports and there is a huge variation in the quality. Legislative Finance Committee analysts have compared the Legislative Finance Committee performance measurements with the governor's contract rules. Particularly, there are some new agencies or new management where they want to review the measures and revisit them. HED and CYFD are examples. The Environment Department has state and federal measurements and they want to synchronize the measurements so there is no duplication of effort.

There are some areas where the measures need to be revised due to new priorities reflected in the budget. The Economic Development Department is an example because it now has the spaceport and some film industry.

Mr. Abbey announced a prototype of color-coded report cards that should clearly indicate an agency's progress. Green, Yellow and Red colors indicate how an agency is doing on a performance measure. This allows a quick graphic representation for an agency performance. The Legislative Finance Committee will include it in the briefs as well as the budget documents. The next steps are working with DFA on reducing duplication and increasing quality. One big difference between the two is that DFA focuses on initiatives whereas the Legislative Finance Committee focuses on base budget. Staff may bring recommendations for additional money for meeting performance goals.

Chairman Varela indicated that the governor agreed with AGA when it was passed and hoped that they were still in agreement. When the Legislative Finance Committee begins looking at the key measures, maybe they should look at quality audits of agencies. The need of the Legislature to see the data in aggregate sometimes conflicts with the need of the agency to see specific benchmarks.

If the agencies are not using the reports for internal benchmarking, maybe the measures need to be different.

Mr. Abbey indicated that the Legislative Finance Committee auditors will be working with the analysts in this cycle to address these issues.

In response to a question from Chairman Varela, Mr. Abbey indicated that the Environment Department is using the performance data and working to improve the measures. Generally it is in good shape and not one of the problem agencies.

Responding to Chairman Varela, Ms. Burch reported that the analysts look at the quarterly reports and report their findings and concerns to her. The analysts have seen improvement in some of the agencies.

Rawson noted that it's interesting that the governor is interested in accountability after he stripped a lot of provisions for accountability from the General Appropriations Act. Rawson is concerned that the governor wants the agencies to be accountable to the executive but not the Legislature.

Responding to Senator Rodriguez, Mr. Abbey indicated that the performance measures are constantly evolving.

Issues that were highlighted by Ron Curry, secretary of the New Mexico Environment Department, relating to the quarterly report were the Graves site in Farmington. There were concerns there would not be enough clean-up funds. Clean-ups have proceeded and the corrective action fund (CAF) is healthy. The Graves site had a leak that threatened the Animas River and schools. Starting last year \$4 million was spent from the CAF. Almost 60,000 cubic yards of contaminated soil have been removed and 51,000 gallons of contaminated water pumped from the site. Cost of remediation was \$4.2 million. In a different clean up, the state signed and Los Alamos National Laboratory signed an agreement a year ago stipulating penalties. Funding in FY07 president's budget would cut funding by 70 percent. The agency is working with the state's U.S. senators to restore funding. On WIPP and economic development for Carlsbad, Secretary Curry said the permit needs to be modified and should be modified by next fall.

Miscellaneous Business

Representative Varela moved to approve the minutes from the March 2006 LFC meeting, Senator Rawson seconded the motion, and it passed with no objection.

Representative Saavedra moved to adopt the Audit/Computers and Capital Subcommittee report, Senator Sandoval seconded the motion, and it passed with no objection.

Status of Implementation of E911: Cost and Program Effectiveness

Chairman Varela asked if the review included discussions with Homeland Security, which he believes is the umbrella agency. David Goodrich, LFC information technology auditor, replied that this review focused mainly on DFA.

Mr. Goodrich presented the status of implementation of E-911, noting significant issues facing the program, such as the lack of adequate staffing and expertise, has led to most of the issues. Phase II, concerning wireless phones, covers 50 percent of the state's population but only five counties. No single statewide organization exists to coordinate plans and represent all state and local issues. The E-911 fund does not cover all expenses needed to respond to a call. The state does not have a seamless end-to-end solution as encouraged by the

federal act; however there are feasibility concerns with the federal act. The accuracy of data is dependent on various state and private entities.

Responding to Chairman Varela, DFA Deputy Secretary Rick Martinez said DFA planned to have their responses by the end of the week. Chairman Varela asked DFA to provide responses before the hearings are completed.

Mr. Martinez responded to the review. He went over the funding source and program goals. The goal is to have 90 percent of New Mexico's population served by Phase II of E-911 by the end of 2007.

Deputy Chief Randy Burtran, Uniform Bureau, New Mexico State Police, indicated that and the agency is willing to help resolve the issues. He said a call for consolidation oversimplifies the problem and it is unrealistic to dictate what equipment local governments should use.

Chairman Varela indicated that at the highest level there should be some integration. Chairman Varela questioned the Local Government Division of DFA on how local governments are monitored to determine how funds were spent and asked if these expenditures are integrated in local governments' budgets. Robert Apodaca, director, Local Government Division, said he believes program staff has a handle on expenditures. All costs associated with E-911 are reviewed and approved by DFA technical staff. Local governments budget most of the costs for operating the local emergency responders in their budgets. By the end of calendar years 2007 hope, the department hopes Phase II will reach 90 percent of New Mexico population with wireless services. Right now we are at 50 percent with Phase II and 65 percent with Phase I.

Chairman Varela requested that Homeland Security come up with a framework for all homeland security and include E-911 and an action plan to define disbursement of funds and interaction with local law enforcement.

Senator Smith asked if anyone from the Public Regulation Commission or telephone companies were in the audience, none were present. Senator Smith questioned how money flows to counties. He said last year \$9.8 million was paid to companies on behalf of counties Senator Smith asked why this is not on a statewide project for capital outlay and said he wanted to see the issue on the front burner as a statewide project. He suggested counties should not be able to get other funds until it makes E-911 equipment purchase a priority.

Chairman Varela said he was concerned about the level of spending versus the status of implementation. He said the committee's interim recommendations need to address this issue. Chairman Varela requested a hearing on Homeland Security and a hearing was set for July 2006.

Senator Griego said many of the issues with E-911 implementation result from a lack of communication with small communities. He said consolidation should have addressed communication issues and E-911 should be part of homeland security.

Senator Wilson said she wanted to see a financial report in July and asked auditors to provide the committee a comprehensive report.

Responding to Representative Taylor, Mr. Martinez of DFA said the state plans to have Phase II implemented by 2007. He said he plans to coordinate the plan with other statewide services. He said consolidation will not save money and the biggest problem is turf issues. The state needs to force regionalization of the areas and needs to determine how the State Police fit into the model statewide. Mr. Apodaca agreed and said he will sit down with Homeland Security and the Department of Public Safety to address a more coordinated and statewide effort. Some communities will be hard pressed to determine how to come up with funds to address

consolidation efforts.

Representative Salazar asked how local laws that restrict cell towers will affect E-911 and if satellite is a consideration.

Representative King requested a list of the status of wireless coverage by community and a state tower might be needed to ensure gaps are covered. DFA should take charge of bring everyone coming together.

Earl Wright, GIS Affiliate, Santa Fe, said the E-911 program is an unfunded mandate. Smaller counties do not have resources to do the work and buy equipment. Representative King said the LFC analyst for DFA should work on the issue during the interim for possible statewide capital funding.

Chairman Varela questioned how Native Americans are included. He said DFA should work with the Indian Affairs Department to address their issues.

Representative Arnold-Jones said citizens believe if they call 911 will get services. She said the state needs to let everyone know how important they are to the system. She said the state should not consolidate the systems because it would create a single point of failure. She said the state needs a system that transcends political subdivisions and the resources to make that work.

Representative Bratton said the state seems a seamless system and the Legislature has the responsibility to ensure that the fees collected are covering the needs. He said 25 percent to 30 percent of a phone bill is tax and the Legislature should make an effort to make the system work.

The chief of Santa Fe County fire department, representing fire chiefs statewide, said the group recommends DFA (1) encourage continued consolidation of local responders because it has enhanced services, (2) encourage legislation to require local telephone vendors to share information with local responders and adequately update the information in a timely fashion, (3) add subject experts to support data base accuracy, and (4) formation of statewide E-911 advisory board to address issues.

Chairman Varela asked that when Homeland Security comes before committee for its budget that the agency have a conceptual plan. He said the committee should invite the Public Regulation Commission and others vital to the issue to give the committee a better understanding on expectations of DFA, Homeland Security, DPS and local agencies. The committee should look at statutes to see if amendments are needed and technology funding to make sure oversight committee has a hearing on Homeland Security, including E-911 issues.

Update on New Mexico Mortgage Finance Authority Program

Mr. Abbey announced Jay Czar will replace Kathryn Miller as director of the New Mexico Mortgage Finance Authority effective on May 1, 2006. Erin Quinn, Senior Policy Advisor, New Mexico Finance Authority, Izzy Hernandez and Lionel Holguin were introduced as presenters. Ms. Quinn presented an overview of MFA's mission and organization. Ms. Quinn described MFA reference material containing a description of each of MFA's programs, criteria, qualifications, financial structures, and the agency's strategic plan.

Representative Varela asked how much and for which programs the state provides funding. Ms. Quinn responded the state provided funds for the weatherization assistance program, shelter for the homeless program, and Housing Trust Fund. The Legislature in 2006 appropriated \$800 thousand to expand weatherization services. The funds will complement \$2.5 million in the 2005 Extraordinary Session, \$1.5

million in federal funds and \$1.5 million from Low-Income Home Energy Assistance Program (LIHEAP) funds. The Legislature in 2006 appropriated \$750 thousand to the Income Support Division for the shelter for the homeless program administered by MFA. The funding will be leveraged with \$710 thousand from federal Department of Housing and Urban Development.

Representative Varela asked if monies in the Junior Bill vetoed for the shelter program in Santa Fe, in particular the St. Elizabeth Shelter, could somehow be replenished through the efforts of MFA with other funds available to the agency. Ms. Quinn indicated MFA has granted funds to the Santa Fe shelter in previous years and indicated St. Elizabeth had already submitted an application for new funding.

Representative Varela stated he understood MFA was not required to have their operating budget approved by the Legislature but felt the agency should be scheduled for another hearing to report on their operating budget. Representative Varela requested that LFC staff schedule a hearing during the budget hearings.

Varela further questioned whether or not the Governor's Finance Council is subject to the Open Meetings Act. The LFC director was asked to follow up on the legality of the meetings held by the Governor's Finance Council, in particular, if they are they subject to the Open Meetings Act. The director was asked to address the question to the Legislative Council Service.

Senator Griego stated he wanted to make sure all the programs under MFA continue to operate as in the past and make sure they do not change or take a different direction under the new leadership. Ms. Quinn responded the current programs have been successful statewide and assured the committee the expert staff and programs would continue their work in providing affordable housing in rural, urban and tribal areas statewide.

Senator Rawson discussed housing problems in Dona Ana County and Smiley Gallegos' role with the Housing Advisory Committee and asked MFA for copies of all contract information pertaining to any funds Mr. Gallegos may have received from MFA.

Ms. Quinn stated she did not think MFA currently has any contracts with Region III. In response to Senator Rawson's question about previous contracts with Region III, Ms. Quinn indicated he has had one contract in the past for a loan in the amount of \$60,000. Ms. Quinn indicated the loan had been paid back.

Izzy Hernandez, MFA, indicated the loan was returned and with respect to his membership to the Housing Trust Fund Advisory Committee, it is an advisory committee that makes recommendations to the MFA board, which makes the final decisions. Mr. Hernandez stated Mr. Gallegos has not received any funds from the Housing Trust Fund.

Senator Rawson asked for affirmation that there was no concern with some of the things that are going on – a housing authority of the state having to get money through Region III which he controls and the use of a bonding agency that happens to be the same one that Vigil and Montoya used.

In response to Varela's questions as to whom the investor was, Rawson responded he couldn't think of the name off hand, but thought it was Nelson and Nelson, or Kent. (Kent Nelson was an investment advisor for the Treasurer's Office who has pleaded guilty to fraud.) Senator Rawson indicate the affordable housing project in Las Cruces may not be going to affordable housing clients and expressed concern of any influence Mr. Gallegos has with MFA.

Ms. Quinn reiterated the distinction between MFA, regional, local and tribal housing authorities. MFA was created by and is governed under a completely different statute than the regional housing authorities.

Rawson stated he wanted to make sure Mr. Gallegos wasn't getting money since he sits on MFA's housing advisory board and may be getting money for affordable housing, which is part of MFA's responsibilities.

Ms. Quinn stated MFA did award a loan in 2002 to Region III Housing Authority for \$60,000 and that capital was returned. Since that time MFA has not entered into any contracts or loan agreements or grant agreements with the Region III Housing Authority, either from the Housing Trust Fund or any other funds. She stated Mr. Gallegos is an appointee on the Housing Trust Fund Advisory Committee, comprising five members, three of whom, including Mr. Gallegos, are appointed by the Speaker of the House, three appointed by the President Tempore of the Senate, and three members appointed by the governor. Ms. Quinn indicated they are just an advisory to the MFA board and the board does not have to adopt their recommendations. She indicated the board is the final arbiter in the funding recommendations from the Housing Trust Funds.

Senator Carraro asked about the involvement of the Speaker of the House in the advisory board. Ms. Quinn responded the Speaker appoints three members of MFA's housing trust fund advisory committee.

In response to Varela's request for responses from the audience, Ms. Joann Garcia introduced herself as the former director of Region III during Gary Johnson's tenure as governor. Ms. Garcia indicated Mr. Smiley Gallegos went to each of the counties in Region III, Torrance, Sandoval Valencia and Bernalillo counties, and misrepresented himself as having her title and position, and asked the counties to give him a letter and funding. Ms. Garcia said she had certified minutes of those meetings proving Mr. Gallegos's fabrications and that Mr. Gallegos was not helping the poor and creating affordable housing. Ms. Garcia indicated Mr. Gallegos issued bonds even after Gary Johnson had issued him an order to cease and desist. Ms. Garcia indicated she has tracked over \$400 million dollars in issued bonds but there are no houses and no projects. Ms. Garcia made other remarks accusing Mr. Gallegos of building homes in Las Cruces that did not go to clients qualified for affordable housing in Las Cruces, discussed a court action for back wages, and a countersuit filed by Mr. Gallegos.

Representative Varela reminded Ms. Garcia her remarks were on record and that the information could be subpoenaed or Mr. Gallegos could take her to court, or she could take him to court because all the information she was proving was now a matter of public record. Ms. Garcia indicated she had documentation that was all a matter of record.

Senator Smith indicated a suit has already been filed against a Las Cruces board member to draw attention to what she thought were breaches. Senator Smith indicated this is an issue that is going to reach far and wide. Senator Smith indicated that prior to the session LFC was asked to place the housing authorities on its performance audit work plan, but following the session it was decided to sustain the course until the executive branch completes their audit. Senator Smith indicated it was his hope LFC could combine efforts with the executive because the last thing LFC wants is to whitewash the audit because he thought it would be far reaching.

Ms. Garcia responded, "It is very far reaching and I spoke with the gentleman and in fact he's testifying against Robert Vigil in Albuquerque, and he said he will come before any of you anytime you want and that he will tell you about Mr. Vincent Smiley Gallegos and what Mr. Vince Smiley Gallegos demands as payment and it's far worse than what Robert Vigil is on trial for and the people need to know and I am inclined to alert senators and legislators and trying to get help—trying to shed light on it because it is a very serious issue. I have a lot of poor people—I'm not being paid and I am still helping poor people because I get small companies, businesses, trade unions, to do volunteer for people, donate wood, haul wood, whatever they need, but to help the poor people of our state. Every time anyone has asked Mr. Smiley for anything, he

denies them—he hasn’t helped any of the non-profits that depend on that money and he has this power—and he controls hundreds of millions of dollars and it’s not going out to these poor people or to the non-profits and the entities. And so I’m here to ask you, please, please don’t let it die and you really need to look into this man.”

Chairman Varela thanked Ms. Garcia and reminded MFA that Mrs. Gallegos was a member of one of their boards and that they needed to listen to the public. He said the public is pressuring the Legislature to follow up on the issue and perhaps the committee should hold more hearings on these quasi-agencies because they are to some extent handling public money and need to be accountable.

Senator Jennings asked how can we support millions of dollars worth of bonds and not have something to back up those indicating the bonds are going to be sold and somebody is going to buy them.

Ms. Garcia responded bonds have been issued over a period since the end of 2000 up until today that she has found, and can speak to what other people say, and not just Nelson, and they assure her the amount far exceeds \$400 million. Ms. Garcia stated Mr. Gallegos advertised the bonds and that she had newspaper clippings where he advertised for \$8 million in bonds on June 19, 2003, but you have to call Colorado and you get an answering machine, referring you back to somebody else. Ms. Garcia indicated, “You never get calls, you never get paper work on it and the entity you need does not exist—it didn’t exist then, and it doesn’t exist now.”

Senator Beffort, referring to the incoming executive director of MFA, indicated she has known Jay Czar for many, many years and indicated he is extremely reputable and competent. Senator Beffort indicated Mr. Czar should be apprised of the discussion at hand so that he can look into it too.

Senator Rawson indicated it may be worthwhile for LFC to have an executive committee and perhaps Mr. Czar could get his arms around the regional housing situation.

Senator Smith suggested there may be a couple of people LFC should bring in and then decide what direction to take. Senator Smith remarked no member of the committee wants to be in a position of what happened in the State Treasurer’s office indicating the committee was aware of the situation for seven or eight years. Senator Smith indicated LFC is not a police force, but the committee has flagged some issues where the members thought they were in a position to take corrective action and after hearing additional facts on this particular issue, they may be in a similar position to where they want to make recommendations to move along faster than the Treasurer situation.

Senator Rawson stated the regional housing issue is a heightened issue especially to hear that Kent Nelson is involved. The senator indicated the audit of the Treasurer’s office was pushed along and it went on for several years. As a responsible body, LFC should not allow this issue to wait for another hearing because to hear Mr. Nelson is involved in these loans is very problematic.

In response to Varela asking if the information presented was a fact, Ms. Quinn indicated she could not speak to it, nor was she aware of the information that was just shared by Ms. Garcia with the committee. Ms. Quinn informed the committee the State Board of Finance had contracted with an institute out of Colorado that is currently conducting a performance review of the regional housing authorities and will be reporting back to the state Board of Finance and DFA in late June. Ms. Quinn indicated MFA would be working with the consultants to see what kind of role MFA will play and how MFA could help them.

Varela suggested that when the audit is completed for public record that the Board of Finance submit their

audit to the LFF in order to review the findings and then decide what further action to take.

Senator Smith reiterated that even though LFC had asked for an audit back in November or October for the next audit cycle, the executive and Legislature should work collectively and not call for another audit. The committee should communicate to the Board of Finance that this is an issue, that certain information has been provided and that the committee will be following this very closely and expects to learn the results no later than July.

Quarterly Capital Outlay Report

Linda Kehoe, principal analyst (LFC) reported on the results of most current quarterly report, indicated the changes since January have been beneficial and pointed out the continuing weaknesses. Excluding 2006 session projects, agencies manage 4,000+ projects. The 2006 session added 3,242 projects. She said the staff ratio needs improvement. The Local Government Division (LGD) has 9 FTE for 2,000 projects; the Aging and Long-Term Services Department has 2 FTE for 500 projects; the Public Education Department has 3 FTE for 5,100 projects. The report indicates \$792.7 million of unexpended funds and 27 agencies with open projects worth over \$1 million. Eight of the 27 agencies have projects greater than \$10 million. Progress made includes

1. Many projects have been closed or are being completed on tighter time schedules; however, \$42.8 million for projects should have been reverted in 2005. It's a small amount compared to total, but many agencies still have clean-ups of projects pending. Many are probably closed out but need to be reconciled. It is critical to clean up this data.
2. LGD has made a good effort to develop a local government plan (with the three highest priority projects of all cities and counties). The process is a good step forward. DFA continues to have hearings with state agencies on their five-year plans. The executive typically funds agency priorities but not necessarily in the order of the agency request and the projects are not adequately funded.
3. State agencies, including non-vouchering agencies such as the Department of Transportation and universities, are using the website to track capital projects. The cities of Las Cruces and Albuquerque and Dona Ana County have some of the best internal tracking.
4. The following requires more attention in LGD:
 - a. Timeliness of quarterly updates. The agency currently has 1 trained FTE and has no users' manuals or backup.
 - b. Expiration of 2005 projects.
 - c. Ratio of employees to projects. The agency needs more staff to confirm the money spent. The lack of staff makes it hard to follow-up on project status.

Mr. Apodaca explained the difference between the community development and financial services sections within Local Government Division. He indicated of the projects authorized from 1998 to 2005, nearly 5,000 projects remain open worth \$793 million, excluding the 3,242 new projects authorized in 2006. The division administers the Community Development Block Grant program, the federal fiscal relief funds, and general fund and severance tax bond funding for projects. Mr. Apodaca indicated major accomplishments included combining the Capital Outlay Unit with the Local Government Division and reorganizing the staff to allow 9 FTE to work on capital outlay; general fund agreements for projects authorized in 2006 completed by April; implementation of a new subsidiary ledger that will provide for greater accountability of unexpended funds; and LGD coordination of projects with the Council of Governments.

Ms. Kehoe presented an update on major projects as follows:

State History Museum

Projected Cost: \$29.2 million

Available Funds: \$35.8 million (state funds, \$20.8 million; federal funds, \$15 million)

Status: Archaeological survey and site development complete; infrastructure (sewer, water, electricity, etc.) near completion; retention walls for excavation to be completed by mid-May; bid out in May for construction materials; currently working with City of Santa Fe to work out traffic patterns during construction; projected opening is Spring of 2008.

Archaeology Center

Projected Cost: \$4.5 million

Available Funds: \$4.425 million (STB, GF)

Status: land acquisition for 26 acres of BLM land off Highway 599 in Santa Fe underway; BLM required environmental assessment and public comment process; lease-purchase for land (\$2/acre for 5 years and \$10/acre after construction) expected to be signed by January 2007; architectural services have been awarded; programming and schematic design is complete; design for incorporating easements and growth underway; occupancy expected by November 2007.

State Laboratory Services Building

Projected Cost: \$80 million (includes \$20 million for escalated costs since 2001 estimate; cost increased from \$270/sq. ft. to \$350/sq. ft.)

Available Funds: \$59.9 million (STB and NMFA bonds)

Status: Land acquisition price agreed on between GSD and UNM for \$1.114 million; UNM has not signed purchase agreement; UNM gave PCD authority to begin site development; PCD sent out bids for site work in December 2005; bids came in over estimate; PCD plans to re-bid site work once it owns the land.

Las Vegas Medical Center

Available Funds: \$11 million (NMFA bonds)

Status: DOH indicates bid for architectural and engineering will be put out to bid in June.

Roswell Rehabilitation Center

Available Funds: \$10.3 million (NMFA bonds)

Status: 2006 reauthorization expands language to allow for new construction rather than renovations; building will be constructed on ENMU property; lease agreement with ENMU has been signed; DOH currently developing contract for sole source with architect hired by ENMU

Mr. Abbey agreed with previous comments made by Mrs. Kehoe that the executive branch has made significant improvements in reporting on quarterly balances of outstanding appropriations and that the planning process has improved for a number of reasons including

- The high-level interest, the efforts of the Governors Finance Council and the Capital Outlay Planning Unit at DFA. Improvements include prioritization of state and local projects and coordination of agency efforts.
- Both Executive and Legislature have made progress in increasing funding per project to address the problem of piece-meal funding.
- LFC staff improved capital reporting by providing status reports of projects to legislators by individual sponsors.
- Both the legislative and Executive branch collaborated to prioritize projects for the General Obligation bond package.

Mr. Abbey indicated some of the evident problems with the process included:

- 2006 capital outlay appropriations exceeded amount needed to maintain “consensus” 10 percent reserve target by \$100+ million; contingent appropriations worsened the overspending; Executive vetoed \$256 million of appropriations to bring General Fund reserves to 10.5 percent.
- Vetoes predominantly were for legislative initiatives in the General Appropriation Act and SB 415 (Junior) developed after extensive budget hearings, amendments and conference committee hearings.
- At least two key initiatives were not enacted: GRIP II and new Interstate Stream initiatives.
- Some important state-wide initiatives also were not adequately prioritized including additional funding needed for the new scientific laboratory, facility upgrades at CYFD juvenile facilities, upgrades at corrections facilities, museum and monument repairs, replacement of state police barracks in Las Vegas and Las Cruces, the Lordsburg port-of-entry and higher-education infrastructure repair. As was typical of operating budget development, there is tension between adequate funding of existing programs and new initiatives.
- The omnibus capital outlay bill included significant appropriations for operating purposes. This creates some risk of duplication, makes it difficult for DFA to establish proper capital and operating budgets, thereby constraining proper financial controls and oversight.
- The Legislature lacks a formal process and entity responsible in the interim for capital budget planning and oversight. Such an entity should be specifically authorized to receive agency requests, conduct hearing and analysis and make recommendations.
- Generally, after LFC staff developed a \$162 million list of more critical statewide projects for consideration for “off-the-top-funding,” legislators were not very involved in the selection of statewide projects from STB and General Fund, instead focusing on individual member shares. Representative Saavedra indicated he did not agree with the last statement made by Mr. Abbey.

Paula Tackett, director, indicated the Legislative Council is discussing the creation of a joint committee made up of LCS and LFC members to study the capital process in the interim and make recommendations at the next legislative session.

Members should be realistic of the amount needed for their local projects, realistic timelines, etc.

Katherine Miller, secretary, DFA, indicated DFA is working on regionalization and coordination through the Council of Governments, particularly in the area of water, health, and public safety issues. She indicated they are coordinating efforts for funding sources for each project, such as ensuring a rate study analysis for water services. Regionalization of water and wastewater services for governments would be more cost effective and economically feasible. She indicated partial funding for projects is a problem and projects require complete funding. She also indicated reauthorizations need to be done effectively—projects cannot be totally completed and projects should be prioritized and should get complete funding.

Representative Sandoval indicated if the Legislature doesn’t agree to make changes, it isn’t going to happen. He stated concerns about setting a threshold for projects, but agreed we need to look at deadlines for executive projects to come in along with legislator’s projects. Ms. Miller indicated she would discuss the timeliness with the governor.

Smith compliment Mr. Apodaca and his staff and LFC staff and agreed much of the process needs an overhaul by legislators. He indicated the Legislature needs to seriously consider changing the process even if it takes shutting down and going into a special session.

Senator Carraro questioned if it was appropriate that operating funds be in the capital outlay bill and alluded

to projects such as the NFL study and rodeo arenas that could have gone to other public needs. He also questioned the impact of vetoes to higher education, public schools, health care, etc., and indicated the leadership needs to study the process including plans to make a move to call a special session and to override the vetoes.

Representative Wallace indicated water and wastewater issues are of a real concern. Committees need legislators input of what issues are within their districts and wants decision of funding source left to a legislative committee. Mr. Apodaca indicated LGD works on water issues with federal and local entities to make sure multiple funding is available and is working on regionalization. Wallace indicated she and Rep. Magdalena worked jointly on a project but the funds were vetoed.

In response to Senator McSorley if there had ever been a year where post-secondary education had so many vetoes, Miguel Hidalgo, deputy secretary for the Higher Education Department, responded “no.” Mr. Hidalgo indicated he had no way of knowing how or why decisions were made as to vetoes.

Representative Taylor indicated it made no sense to fund capital projects with 10-year bonds for projects with three-year life cycles.

Representative King indicated the concern of timeliness for capital projects and the division of the funds will continue as long as legislators permit it.

Senator Jennings reminded the members that the governor does not have the authority to put money in any bill unless the legislators allow it, that the Legislature has the appropriation power and any requirements placed by DFA don’t have to be funded. The ultimate responsibility is with legislators. Legislators allowed themselves to be taken advantage of and legislators are an equal branch of government.

Summary Report on Ready for College? New Mexico High School Graduates Needing Remedial Classes in Higher Education

Dr. Peter Winograd, Director, Office of Education Accountability, presented results from a study on high school graduates who take remedial classes in higher education. Almost half of New Mexico students attending higher education institutions in New Mexico take at least one remedial class while in college. A number of questions are raised by the data: (1) What kind of curricula do students take in high school. (2) Are high school courses aligned with the New Mexico standards. (3) Are there differences in how the different institutions determine the need for remedial classes. (4) What are the costs. (6) What is the relationship between high school curriculum and the need for remedial course work?

Reading performance appears to be improving, however numeracy seems to be problematic and efforts need to be increased to impact these. High schools need to better prepare students for college work and to provide high-quality professional development to improve math teacher preparation.

Veronica Garcia, secretary, Public Education Department, noted that high school reform will be part of the PED’s legislative agenda and rigor needs to be looked at and aligned with higher education.

Beverlee McClure, secretary, Higher Education Department, noted the report provided data necessary to begin the alignment process between high schools and higher education.

Representative Varela asked what the enrollment issues are as they relate to senior rigor and concurrent enrollment. Secretary McClure replied that institutionalize relationships with higher education to provide

concurrent enrollment should be a matter of course. Secretary Garcia stated a need to increase the opportunities for advanced placement and concurrent enrollment for schools. Representative Varela asked what the Legislature should do to pressure districts to improve and implement more rigor in high schools. He also asked if the money follows the child in dual enrollment. Secretary Garcia replied there may be a need to change the graduation requirements by statute to increase the mandatory attendance age, as well as mandatory curricula recognizing that it may impinge on local board autonomy. However it works differently among the different schools. Interim work will be done and presented to the Legislature.

Senator Smith asked if those students who go to college out of state take remedial courses at the same rate. Mr. Winograd replied that his best guess is that those students are probably better prepared. Secretary Garcia added under the No Child Left Behind Act more accountability is being brought to high schools rather than just the 10th grade competency exam. Representative Moore asked if factors related to the funding formula are tied directly to student performance. Mr. Winograd answered that it was not part of the study, however as part of the overall program evaluation it will be considered. Representative Moore asked if the committee could look at alternative forms of funding for seniors to make certain schools provide rigorous curricula for students and make certain senior years are meaningful. Secretary Garcia responded that this is a significant issue to be considered by the funding formula task force to upgrade the senior experience.

Senator Rodriguez asked if increasing math rigor is necessary or if that is setting up the students and schools for failure. Secretary Garcia responded that students note they can work harder and are not being challenged while in high school.

Representative Taylor asked about the criteria used to place students to in remedial classes. Secretary McClure replied that schools use an entrance placement test. Based on test results, students are placed as needed and may have the opportunity to move out of remedial tests if performance indicates appropriateness.

Representative Taylor asked if teacher preparation programs use this type of data to evaluate and change skill development as needed to implement changes identified to improve student performance. Ms. McClure answered that this is an important portion of the study and data will be used to evaluate and make changes in teacher prep.

Senator Jennings responded that by the data, it appears small schools or schools with higher income perform better. Economics or better parental involvement appears to have a significant impact on student performance. Funding of senior years needs to be looked at closely as well as rigor. We need to test teachers or track students and reward those teachers who really have a positive effect on students. Senator Griego added that the report is good, however it should have been presented to the superintendents and school boards to allow the boards to come to LFC and make presentations as constituents and allow the schools to present what they are doing to address concerns raised in the report. Because LFC is not hearing from district policymakers it is clear that partnerships with the two-year schools are not effective.

Senator McSorley asked if a study will be performed to correlate the study results with cohort dropout rates. Secretary Garcia answered that an ongoing cohort study is underway but will not be complete for two more years until the cohort graduates. Senator McSorley asked if the state has looked at studies relating to student performance as a result of parental involvement. Secretary Garcia responded that no empirical studies have been conducted to determining if a child requires remedial work.

Representative Sandoval responded that it appears we may be throwing money away if a large number of students are not completing college., and that maybe we should look at a one year grace period for students to allow them to prepare for school before going to college.

Representative Varela discussed the parental responsibility act and urge the secretaries to take it to the cabinet and ask if it can be used by all agencies. Also, the chairman would like to see more involvement by the local districts and to have local board assume more responsibilities for education.

Action Plan for Higher Education Funding Formula Task Force/and Update on Other HED Interim Work Items

Secretary McClure introduced her staff, and the public, post-secondary institutional presidents in attendance introduced themselves to the committee. Secretary McClure presented the Higher Education Department (HED) work plan for the interim. She said all higher education policy is being formed by task forces. She noted the HED advisory board is developing a strategic plan for higher education, will meet with governing boards in June and bring the plan to the executive and Legislature in July. She said fully funding off-campus instruction has led to too much duplication. Representative Saavedra asked about funding for infrastructure, to which Secretary McClure indicated the governor vetoed \$60 million. She said the facilities condition index (FCI) study will be updated, and perhaps there will be additional support as a result of that. She noted the HED is doing a salary study. She discussed consolidation of finance staff to address both institutional finance and department administrative services functions

Maralyn Budke, task force chair, addressed the work of the Formula Enhancement Task Force. Ms. Budke and Secretary McClure discussed funding issues being considered by the task force. She said mission specific funding is being considered. She spoke to mill levy concerns and said the tuition credit is being looked at by a group. She said the task force is looking at funding for athletics. The task force is also addressing performance funding with the first distribution in FY08. It was noted that different measures would be used to allocate performance funding for two-year schools then for the four-year schools. The presentation noted funding is need for the “cost of opening the doors.” The presentation noted recommendations will be made to the governor by August.

The committee asked Ms. Williams of the Legislative Finance Committee staff to provide an overview of higher education funding formula issues from the committee’s brief. Representative Saavedra asked for the solution to differences in compensation between various two-year institutions. Ms. Williams indicated formula funding issues are first on this year’s Legislative Finance Committee staff work plan for higher education.

Chairman Varela said institutions will need supplemental funding for inflationary factors.

Manuel Aragon, president of New Mexico Highlands University, complimented Secretary McClure for her work but noted institutions have not received funding for utility costs from the special session. Secretary McClure said DFA has come in to try to help the finance staff catch up. Miguel Hidalgo, HED deputy secretary, said utility funding was incorrectly set up in the accounting system, but corrections have been made, and checks will go out this week.

The president of Northern New Mexico College said inflationary factors need to be addressed. He spoke to the need for additional funding for faculty salaries at Northern and presented a five year budget plan. He also noted concerns about 2006 appropriations as recurring versus nonrecurring concerns. He said Mr. Abbey had discussed the possibility of nonrecurring funding in the 2007 session, with a designation of three years of availability on the funds.

Carlos Romero, associate vice president of government and community relations at the University of New

Mexico, spoke to the need for funding for the UNM School of Medicine. He said during the 2006 session the Legislature added another \$1 million, then another \$1 million. He noted UNM still needs another \$13 million to make that complete. He said the hospital can no longer continue to subsidize the School of Medicine. He said the School of Medicine is not on a funding formula, and these issues should be considered by the task force and the Legislature.

Leroy Sanchez, president of Luna Community College, addressed the need for compensation funding. He noted the importance of vocational studies and the need for developmental studies and the role of the two-year schools in these areas.

David Lepre of the Council of University Presidents spoke to two funding issues that need to be addressed: (1) the need for funding for fixed costs or inflationary factors and (2) adjustments to the building renewal and replacement (BR and R) funding formula. He said the state needs an agreement to project how these factors would be addressed so that policy makers can move on to talking about other issues. He said the infrastructure problems are huge. Four-year schools cannot go to taxpayers and ask for assistance.

Senator Jennings noted if tuition keeps going up as much as it has been, then institutions are going to “kill the lottery.” Senator Jennings noted the Legislature needs to adjust fixed costs of institutions in funding. He expressed concerns about the differences in faculty pay between two- and four-year institutions and said two-year school salaries are very low.

Senator Jennings expressed concerns about enrollment discrimination at New Mexico institutions, particularly using his daughter’s application to medical school as an example. She will be attending a Texas institution because she was not accepted to UNM Medical School.

Representative Moore noted the importance of research and public service project funding. He said the process needs to be fixed. He said BRandR is particularly important. He talked about the executive veto of FCI funding. He said if the state does more funding for BRandR, institutions need to be held accountable.

Deputy Secretary Hidalgo noted the non-recurring BRandR funding in 2006 GAA has accountability reporting requirements for institutions. He said the update will ask institutions to identify specific projects addressed by the funding.

Representative Picraux asked questions about differences in faculty costs for Northern. She asked if there is a pattern of use of part-time versus full-time faculty use by type of institution.

Representative Taylor noted New Mexico is not like Colorado, where higher education is being cut out of the state's budget.

Senator Smith said it is "mind-boggling" that utility funding has not went out to institutions. He said the explanation is that computer was lost or not working, and said the hard drive that needs to be used is the pencil. He said issue is "totally and completely inexcusable.", and that he will keep that in mind on total evaluation.

Senator Smith talked about executive vetoes in the 2006 GAA. He said the \$60 million actually translated to \$42 million, because of spiraling building costs. He said now the state will need \$70 to \$80 million for this issue by the time the legislature next meets. He said the executive recommendation was a concern ---- January is sort of late. He said he is expecting better efficiency and better input to this committee, or we will see more legislative involvement. He said he expects more from planning from this governor or any other. He said the department made a terrible presentation on BRandR and general obligation bonds. He said the people of New Mexico are expecting better, and that his patience is wearing thin.

Secretary McClure said she will do better. She said it is inexcusable on how much money had not went out to institutions and noted the staff reorganization.

Senator Smith said BRandR vetoes for two years have driven up the cost for the state, and the Senate will override future vetoes in this area. Secretary McClure responded that institutional presidents met with the governor, and he told them he would veto the funding. As such, it was no surprise for the presidents.

Senator McSorley asked why UNM Hospital was left out of the formula funding. He said the state is not funding the UNM Health Sciences Centers and not funding UNM Main appropriately. Ms. Budke indicated the task force will consider the issue, but it may be better to fund medical school through special incentive funds. McSorley said outcome-based funding needs to be addressed. Senator McSorley emphasized the state needs a statewide solution in the formula.

Representative Varela showed the committee a 1964 book written by Ms. Budke on the state appropriations process. Chairman Varela asked Mr. Abbey to update the book, which addresses responsibilities and separation of powers. He said the book was very useful. The original report will be sent to committee members.

In response to Representative Varela, Secretary McClure said funding by mission won't be ready this session; other recommendations will be ready by July.

In response to Representative Picraux, Secretary McClure said the faculty compensation survey is top HED priority, before taking on adjunct faculty issues.

Quarterly Performance Reports for Higher Education Institutions and the Higher Education Department and Update on Performance Funding

John Counts, Western New Mexico University, addressed the committee on university performance, focusing on student persistence rates. He said today's hearings were very useful because the state has to address remedial education when addressing student persistence. He said it is important to address student intentions as well as entry standards for students. He said WNMU dropped from 90 percent to 65 percent for remedial education. Fall-to-fall retention 10 years ago was 35 percent but is now in mid-50 percent. Once a student is on campus, the student needs proper placement through placement testing. Advising is critical, and student

success programs are important. The cost of opening the doors is basic to how an institution puts together the budget, and affordability for students is key. He expressed concerns about lottery scholarships. In a Western Interstate Commission for Higher Education study of tuition and fees, New Mexico institutional rankings were quite low. He noted WNMU programs for worker displacement and impacts on student persistence.

Dr. Frank Renz, executive director, New Mexico Association of Community Colleges, spoke to quarterly reporting by two-year institutions. He said this report is the first time to have peer averages. On average, our colleges are doing better than peers. He said the bad news is that from fall to fall, 10 institutions experienced some sort of decline, largely due to strong employment opportunities. The six-year average is relatively flat or improving. He said it is important to look at this data over time due to anomalies. Data shows Native Americans persist at greater rates than Anglos, and females at greater rates than males. He noted the national debate on why we are losing male students. In seeking external benchmark, first-time full-time students are only 8 percent of those served by New Mexico community colleges. The two-year schools serve the non-traditional student and Dr. Renz profiled these students. He presented a sampling of strategies to the committee and said first-year experience is key. He concluded that the Accountability in Government approach is wise. As a result of AGA, student persistence is being focused on unlike what two-year colleges ever did before. He said the performance reports present an opportunity to look at top performing colleges and see what they are doing to try to improve.

Representative Luciano “Lucky” Varela, Chairman

Date